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SUBJECT: MONTENEGRO'S STOCK MARKET: BULL OR BALLOON?

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[¶](#)1. Summary: Montenegro's stock exchanges exhibited strong growth in the first quarter of 2007, with indices up 79 percent (Montenegroberza) and 90 percent (NEX Montenegro). Roughly half the increase came in March. Similar growth was seen in 2005, at that time driven by demand for shares in large, profitable state-owned companies on the verge of privatization (Telekom CG, KAP - aluminum). The reasons for the current surge vary: some experts point to foreign capital, which would denote a bull market. Others believe that domestic investors have bid shares up on incomplete information, which would likely lead to a significant correction. Post concludes that while some speculation is present, most of the growth relates to established companies, or to an expectation that share prices in soon-to-be privatized companies will repeat earlier, positive patterns. End summary.

#### Two Stock Exchanges

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[¶](#)2. Montenegro, unusually enough for such a small economy, has two well-functioning stock exchanges. Montenegroberza was established in June 1993, has 446 listings (companies and funds), and has a current capitalization of Euros 3250 million. Turnover in March 2007 was Euros 42 million. NEX Montenegro was established in late 2001 and has 436 listings (companies and funds). Turnover in March 2007 was Euros 78 million, a record level. On both exchanges, monthly turnover matches annual turnover for all of 2004, a seven-fold increase. Sixteen brokerages exist in Montenegro, three opening since December [¶](#)2006.

#### Sharp Stock Price Growth in March

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[¶](#)3. In March, the Montenegroberza gains were dispersed among a number of companies, with significant trading in shares of Plantaze vineyard, the Bijela shipyard, the Port of Bar, and the

Montenegrin railways -- all slated to be privatized. Invest bank and Kombinat Alumina Podgorica (KAP) also had significant activity, with Invest bank driving the market index with a near doubling in share price. The NEX's most active company was, unsurprisingly, the profitable and privatized Telekom CG, with a turnover of more than Euros 15 million. The Tobacco Company of Montenegro and the Electric Company of Montenegro, both slated for privatization, also showed strong activity, as did tourism-related companies. However, the strongest price growth was in stocks with less activity, mainly tourism companies with valuable assets.

Radoje Dakic - Money for Nothing?

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¶4. The extreme growth in share price of the bankrupt state-owned firm Radoje Dakic, from a nominal one Euro per share to 18 Euros, attracted adverse comment. Radoje Dakic was a manufacturer of heavy equipment (bulldozers, cranes, etc.) that shut down production under war and sanctions in the 1990s. Foreign competition has since driven it out of business. However, Dakic's buildings sit atop valuable acreage just west of Podgorica. Speculation in Dakic was driven by an apparently mistaken belief that Dakic owns the land; it appears that the state-owned acreage is severable from the state company itself. Reportedly, the GoM will use the land proceeds to fund pensions for Dakic's employees. It should also be noted that March sales of Dakic shares amounted to just over Euros 125,000, compared to turnover in the other companies noted, which generally ranged from Euros 2 to 5 million.

Foreign Investment

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¶5. Only the smaller Moste exchange reports the percentage of foreign-based transactions: 13 percent in March. Post's discussions with the GoM, including the Agency for the Prevention of Money Laundering, indicate that the same percentage holds true for the larger NEX.

Bull or Balloon

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¶6. Comment: While there are overtones of 1929 Wall Street in the recent stock market growth in Montenegro -- more "ordinary" investors, more brokers -- most recent price growth is repeating earlier patterns. Those include strong investment in established, profitable, privatized companies like Telekom CG, and pre-privatization share price growth in state-owned companies. The example of Radoje Dakic, with wild price growth driven by bare speculation, is not wide-spread, which is a good sign. End comment.

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